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Revised Budget

BUDGET SPEECH
1967-68

Thiru C. N. Annadurai

Chief Minister

17th June 1967

Speech of Thiru C. N. Annadurai, Chief Minister, presenting the Budget for 1967–68 *on* 17*th June* 1967 *to the Madras Legislature.*

Sir,

I rise to present what in effect is the first regular budget of the present Government. The House will recall that an Interim Budget for the current year was presented in March last and a Vote on Account was obtained to cover the expenditure of the Government during the first four months of the year. The Interim Budget had been framed with reference to past commitments of the Government and had the limited objective of providing for expenditure based on standing sanctions, pending a closer and comprehensive review of programmes and policies by the Government which had just then taken charge. The Interim Budget has now been recast, so as to provide, within the resources available, for the new programmes and policies, to the implementation of which the present Government attach importance.

2. In framing the budget so as to subserve the objectives of the present Government, we have obviously had to take note of the limitations under which the State Governments have to function in our federal set up. Apart from the provisions of the Constitution which are themselves weighted in favour of the Centre, the practices and conventions, which have evolved in the last fifteen years of economic

planning have also tended to strengthen the role of the Central Government at the expense of the States. With the delimitation of powers as provided in the Constitution, which gives it the authority to regulate foreign trade, monetary and credit policy, the responsibility for overall direction of our economy vests with the Central Government. Through its access to the more elastic sources of revenue, including residuary powers of taxation, the Centre is in a position to syphon off a large share of the national income, leaving the States in a position where they have to depend on discretionary loans and grants-in-aid from the Centre for implementation of their plans and policies. The Centre also regulates directly through powers vested in it under Article 293 of the Constitution, and indirectly through the Reserve Bank, the terms and conditions and limits subject to which the State Governments can augment their resources through public borrowings. The provision for an objective review of the financial needs of the States at quinquennial intervals through the Finance Commissions has not in any way served to mitigate substantially the dependence of the States on the Centre in view of the various limitations on the terms of reference of such Commissions. The award of every Finance Commission has no doubt meant accretion of some additional resources to the State Government. But in the absence of any arrangements for consideration of the new needs of the States during the period intervening, it has been the experience of States that the resources accruing to them by devolution from the Centre are more than offset by new commitments not taken into account by the Finance Commissions. To illustrate, it had been computed that Madras had benefited to the extent of Rs 64 crores over the

Fourth Plan period under the award of the Fourth Finance Commission. But even before the award of the Commission took effect from 1st April 1966, the Centre had to sanction increases in rates of dearness allowance of their employees with reference to rise in prices. We had also, in fairness to our employees, to concede similar increases on two occasions last year and these two increases in rates of dearness allowance entailing an additional burden of about Rs 45 crores on Revenue account over the Fourth Plan period, have practically wiped out the benefits accruing from the award of the Fourth Finance Commission. Almost all States including Madras have drawn the attention of the Central Government to the lacuna in the present arrangements for transfer of resources from the Centre to the States and it is a matter for profound regret that this united demand of the States, though just, should have failed to evoke any sympathetic response from the Centre.

3. Another problem on which the States have expressed concern relates to the mounting incidence of debt charges in their Budgets. On the 15th August 1947, the total debt owed by provincial Governments to the Centre was only Rs 43·97 crores. But by the end of the current year, the aggregate indebtedness of the States to the Centre will be of the order of Rs 5,000 crores. The debt due from this State to the Government of India which was only about Rs 12·3 crores in 1950 is now well over Rs 300 crores. Interest due to the Union Government which was only Rs 41 lakhs in 1950–51 now works out to over Rs 14 crores, an increase which offsets substantially the assistance which the State has received by way of statutory devolution and discretionary grants

from the Government of India. The growing burden of interest charges in State Budgets has attracted the attention of Finance Commissions. In paragraph 100 of their Report, the Third Finance Commission referred to the mounting interest liability which was devolving on the States both on loans raised by themselves and loans granted by the Union Government and pointed out "that in most cases this liability alone absorbs a substantial portion of their current revenues. The position will worsen in future". Their prognosis has come true. Interest charges which absorbed only 3·5 per cent of State tax revenues in 1950–51 absorbed over 20 per cent in 1966–67 and this will rise still further to beyond 23 per cent in the current year. Neither the growth in public debt nor the mounting incidence of interest charges need cause alarm if the loans taken from the Government of India had been utilised according to the orthodox canons of public finance only on projects which bring returns adequate enough to meet the interest and amortisation charges. But, unfortunately, under the compulsions of economic planning the selection of projects is made not with reference to the direct financial returns on them, but with reference to their contribution, often indirect, to the growth of the economy. A large portion of the capital component in the State sector is concerned with the building up of economic and social overheads such as irrigational facilities and educational and medical services. The debt obligations incurred for financing such overheads are by their very nature not self-liquidating and therefore cast a strain on the revenue budgets of the States. It is therefore essential that the Government of India should take note of the unproductive nature of a substantial portion of the so-called capital outlay figuring in State Plans and

provide relief to the States through revision of the present onerous terms regarding rate of interest and schedule of repayments. There is a widening gap between interest receipts and interest payments in State Budgets. Up to 1962–63, interest receipts in our State's Budget were substantially in excess of interest payments. There has been an adverse trend since then which has become particularly pronounced from 1965–66 onwards. The gap between interest receipts and interest payments was of the order of Rs 5 crores in 1966–67. The Fourth Finance Commission which heard representations of the State Governments on the growing burden of debt charges has recommended " that the entire question of indebtedness of the States and the soundness of existing borrowings, interest payment, repayment and accounting practices in this respect should be reviewed on the basis of detailed study and report by a competent body to be set up for the purpose ". (Paragraph 114 of the Report of the Fourth Finance Commission.) We would strongly urge that such an expert body should be set up without further delay to study the question of indebtedness of States in all its aspects.

4. I shall have occasion to refer later in the speech to certain other aspects of financial relations between the Centre and the States, but would draw the attention of the House even at this stage to the severe constraints within which the State Governments have to function in giving effect to the policies which they consider to be essential for the well-being of the people who have reposed confidence in them.

5. It is the firm belief of this Government that even within these limitations, it is necessary to make an earnest start on the policies which they have

placed before the public and on the basis of which they have assumed responsibility for the conduct of affairs of the State. We have endeavoured to frame a budget which, even within the restricted resources and powers available to the State Government, would promote policies which we consider to be essential in the present state of our economy. The central weakness of the Indian economy in the last decade and particularly since 1962–63, when a large increase in expenditure on defence was superimposed on massive developmental outlays, has been the sharp rise in levels of prices causing considerable hardship to large sections of our society, particularly those with fixed incomes such as public servants, organised industrial labour and landless agricultural labour. The All-India index of wholesale prices had risen by 8·7 per cent in 1964–65, by 15·2 per cent in 1965–66 and 16·5 per cent in 1966–67. The index in respect of food articles rose by 9 per cent in 1964–65, 14·1 per cent in 1965–66 and 24·1 per cent in 1966–67. The rise in food prices has understandably generated further increases in costs of production of manufactured articles through increases in wages, dearness allowance and in other forms. Even in respect of commodities whose prices are controlled by the Government, Government have been obliged to sanction increase in prices in the face of pronounced rise in costs of production. The House is aware that the Central Government had to agree to an increase in prices of certain controlled varieties of cloth by 6 per cent in September 1966 and again by 4·5 per cent in April 1967. Prices of steel and sugar had also to be raised. Rise in prices, though it brings in its wake some additional revenue to the Government, entails even larger commitments in the shape of dearness allowance and these increases in their turn necessitate

a curtailment of outlays on productive programmes and retard the growth of the economy. The rise in food prices has caused erosion in the purchasing power of the poor and middle classes. Recession and unemployment in some of our major industries are thus traceable to rise in prices of foodgrains.

6. It is the firm view of this Government that food prices hold the key to the revival and smooth functioning of our economy. It is no use arguing that through increased agricultural production we can bring about a reduction of prices in due course and that our present difficulties are the outcome of unprecedented drought in the last two years. We are aware that the problem of prices can be tackled in the long run only through increased production and that measures for augmentation of production should therefore receive our earnest attention. But we cannot wait for these long-term measures to unfold their benefits and find an enduring solution to our present ills. We should act here and now and act decisively in tackling the problem of food prices, so that we may not only provide the much needed relief to people groaning under high prices, but also break the vicious circle of spiralling prices and costs at its most sensitive point. Such a bold policy can alone help overcome the present self-perpetuating inflationary psychology.

7. In the last three months, Government have considered how best a start could be made in bringing about a measure of reduction in food prices and thus initiate a chain reaction. The first major decision of policy was that procurement of foodgrains should be intensified so as to maintain an uninterrupted flow of supplies through Government controlled ration shops to areas in respect of which Government had assumed rationing commitments either on statutory basis or on

informal basis. This was not an easy task because, for various reasons which we need not go into here, the tempo of procurement had not picked up in January and February, the most favourable months for procurement. We could make an earnest start only by the middle of March, long after the harvest of the main crop had commenced. We however made up for lost time through vigorous measures taken to curb hoarding and smuggling. We have, by and large, successfully completed our procurement programme. It is a measure of public co-operation with Government that we have been able to procure about 5 lakhs tonnes of rice even after exempting completely holdings of one acre and less. Thirty-one lakhs of people in statutorily rationed areas and one hundred and twenty-three lakhs of people in informally rationed areas now get regular supplies of foodgrains and this in turn has helped to keep the prices in open market also in check.

8. It was the stabilisation of supplies through Government controlled shops that enabled us to take the next important step towards bringing about a substantial reduction in prices of foodgrains. I had indicated even in the last session that Government stood by its promise of making available at the earliest opportunity supplies of rice at Re 1 per Madras measure without any reduction in prices payable to producers of foodgrains. Consistent with this promise, we have made a start with the supply of rice at one rupee a Madras measure in the statutorily rationed areas of Madras and Coimbatore covering 31 lakhs of people. The further extension of this scheme to other areas in respect of which the Government have assumed responsibility for distribution will be phased with reference to stocks and trends in prices in the open market. It has been estimated that the financial

commitment on account of this programme in the current year will be of the order of Rs 5 crores. Provision has accordingly been made under "124. State Trading". The difference between the price at which stocks are secured by Government inclusive of the margins allowed for processing and for different stages of handling of stocks and the issue price to the consumers at one rupee a Madras measure figures as a net outgo under "State Trading in Foodgrains", which will later have to be written back to Revenue. It is also Government's belief that through a review of margins now allowed at different stages of handling of foodgrains, it will be possible to keep down the incidence of subsidy to some extent.

9. The distribution of foodgrains at subsidised rates will provide relief to large sections of population who have been groaning under the weight of high prices for a long time and other things being equal, should also assist in arresting the rise in prices of other goods and services. Among the sections of population who will stand to benefit from such subsidies are also employees of State and Central Governments who have had to be frequently compensated for rise in prices. It is therefore a matter for regret that Government of India who are obviously keen on containing the rise in cost of living should have set their face against assisting the States in regard to food subsidies. It is natural for any one to ask whether this policy of Government of India is just, when they are subsidising imported foodgrains to the extent of Rs 118 crores in the current year, the benefits of which accrue to any significant extent only to certain States which are dependent on imported foodgrains. At least from the point of view of ensuring equitable treatment among different States, the Centre should have offered a measure of assistance to the

States which are subsidising the difference between internal procurement price and issue price to the consumers.

10. Another major issue of policy on which I had promised to indicate Government's decision at the time of presentation of the budget relates to the future of land revenue. Members of the present Government, even while in Opposition, had taken the initiative in focussing the attention of Government and the public on the need for affording relief from the rigours of land revenue. In the Governor's address which represented the first pronouncement of policy on the part of the present Government, we had visualised a phased programme for affording relief to small landholders. Whether it is a proposal for reduction of taxation or provision of amenities or extension of concessions, this Government firmly believe that social justice demands that the proposal should be so framed as to afford relief to the low-income groups in our society. It is meaningless to extend concessions in equal measure also to those who have the ability to pay. Those who are well placed in society should make a significant contribution towards the expenditure which the Government incur on schemes calculated to promote the common good of the country and the welfare of economically submerged sections. The rich should look upon such contribution not as a burden but rather as their obligation and sacred duty. All enlightened people will endorse this view. Government have considered how best their policy could be implemented in the current year, with its own specially difficult budgetary problems in the light of the recommendations of the Special Officer appointed by the previous Government to consider the question of abolition of land revenue in all its aspects.

It should be stressed that in the statement made by the former Chief Minister on land revenue in the Legislative Assembly, which in a sense constituted the terms of reference for the Special Officer, it had been distinctly stated that water rates would continue to be levied so that Government might secure some return on large investments made on irrigation projects and also cover the increase in cost of maintenance of irrigation sources and distribution systems in a reasonable state of efficiency. It was also recognised that a levy on land would continue to be the principal source of revenue for local bodies. What the Special Officer had, in effect, been asked to study therefore was how best to abolish basic assessment on dry lands and that portion of the consolidated assessment on wet lands which represents basic land revenue. The House will also recall that abolition of basic land revenue as thus defined was then coupled with State trading in agricultural produce.

11. On his study of this problem, the Special Officer has highlighted the difficulties involved in segregating basic assessment on land from the consolidated assessment in respect of wet lands, and has reached the conclusion that the object which the previous Government had in view could be achieved only by abolishing both basic assessment on dry lands and consolidated wet assessment and by enacting fresh legislation for levy of water rates with reference to the classification of sources of irrigation. The rationalisation of water rates as visualised by the Special Officer might well entail an increase in the existing level of water rates in quite a few areas and the issue will therefore require careful and detailed examination. But at the same time, it is clear in the light of the Special Officer's Report, that without simultaneous legislation on rationalisation of water rates, waiver or abolition of consolidated

assessment on wet lands will not be feasible. In view of the complexity of the problem involved in dealing with lands registered as wet, Government propose to ask a committee of experts to study it and report to them as early as possible. It is also the desire of the Government to take the Members of the Legislature into their confidence and consider the report of the committee before taking decisions. Meanwhile, consistent with their policy of affording relief to as large a number of people as possible from the rigours of the present land revenue system, Government have decided that with effect from the fasli commencing on 1st July 1967, the basic assessment on all lands registered as dry should be waived. Dry lands registered as such but drawing water from Government sources of irrigation will however continue to pay charges for water at prescribed rates. Local Cess and Cess Surcharge payable to Panchayat Unions on dry lands will also be collected. The loss on account of waiver of basic assessment on dry lands is estimated at Rs 1·6 crores in a full year, of which the incidence in the current year will be not less than Rs 1 crore. This decision of the Government will afford relief to nearly 14 million acres of holdings registered as dry in Government accounts. The number of pattas, single and joint, in the State is about sixty lakhs, of which we can reasonably estimate at least forty-five lakhs to be predominantly dry holdings. A very large number of agriculturists will therefore benefit from this decision of Government.

12. It is no doubt true that in the process, bigger landholders including those who raise highly remunerative commercial crops such as sugarcane, turmeric and arecanut will also be benefited. The House will appreciate that when revenue and expenditure are precariously balanced, loss of revenue under any head

will invariably entail additional burdens on other sections of population either through increased taxation or curtailment of beneficial expenditure. It should therefore be Government's endeavour, while affording relief to any section of people, to ensure that the consequential burdens are placed on people who can afford to bear them. It is this line of thinking which has led Government to propose that along with the abolition of land revenue the bigger landholders should be called upon to bear a little additional burden for the well-being of the State. The previous Government had proposed that the loss of revenue on account of abolition of land revenue should be made good through State trading in agricultural produce. State trading with the deliberate object of making up for loss of revenue would entail considerable hardship to agriculturists or in the alternative additional burdens on the urban consumer. We have therefore felt that it will be far more equitable to recoup the loss on account of abolition of land revenue, in some measure, through increased contributions from the comparatively bigger landholders. I shall refer to Government's proposals in this regard in some detail later in my speech.

13. Nationalisation of bus transport is another important policy of the Government which the present budget seeks to promote. The operation of the State Transport department is now concentrated mostly in Madras City and in Kanyakumari district, apart from certain long-distance routes of 120 miles and over. The rest of the field has so far been left completely free for private enterprise. Road transport is an important public utility service and even in countries where private enterprise and initiative have been assigned a prominent place, the operation of road transport service has often

been undertaken by Government and local bodies. Even in India, many other State Governments have nationalised road transport on a very large scale. In a State like Madras with high density of population and a net work of roads maintained at a high level of efficiency, the operation of bus transport on routes covering reasonably long distances should have proved an important source of revenue to the Government. But for reasons which we need not go into here, nationalisation of road transport service has not been pursued vigorously. The present Government feel that it is only through augmentation of non-tax revenues that we can keep the tax burdens on the people within reasonable limits and still raise the resources direly needed for development. Government have therefore decided that all routes of 75 miles and over, both ordinary and express services, should be taken over by the State Transport department. The routes will be taken over as and when existing permits expire. The Government have also proposed that all routes radiating from or terminating in the City should be nationalised as and when existing permits expire. It is also proposed to nationalise all the routes touching Kanyakumari district limits on the expiry of permits of private operators. Further development of these categories of routes will also be the exclusive responsibility of the State Government. So far as current year is concerned, it will be possible to put through the programme with the provision of about Rs 2·5 crores for capital outlay made for State Transport department.

14. While providing in full on a realistic basis for the funds required for the implementation of some of these major policies of the Government, we have taken care to see that the tempo of execution

of schemes of development embodied in our Plan is maintained unimpaired. I had indicated in my speech on Interim Budget that Government would undertake a review of the draft Fourth Plan and make suitable adjustments in relative priorities. Unfortunately, the finalisation of the Fourth Plan, which has already been delayed for over a year, is still not complete at the national level and it is not therefore possible for us to undertake the recasting of the Fourth Plan with reference to the national Plan and the resources likely to be made available by the Centre. I hope that the finalisation of the Fourth Plan will be complete at least by October so that we can draw up a Plan for next year on a firm basis as an integral part of a reasonably long-term Plan. Though we are now supposed to function within the framework of Five-Year Plans, we have been drawing up for the last two years only annual Plans with certain limited objectives. In a sense, even annual Plans are not being drawn up on a firm basis, because the Centre does not make a proper assessment of the minimum requirements of State Plans and make the requisite resources available at one stretch. Central assistance for State Plans is initially pitched at a very low level and later raised a little with reference to the inescapable commitments of the State Governments. This renders planning on a reasonably stable basis extremely difficult.

15. Along with the Interim Budget, we had presented an interim Plan entailing an outlay of Rs 75·78 crores, which was considerably less than the level of expenditure reached in 1966–67. We have made a fresh review of the requirements of programmes under execution as well as of certain inevitable new programmes. The outlay on the Plan has now been

raised to Rs 85·28 crores. This may appear a little low in relation to the projected outlay of Rs 564 crores on the Fourth Plan, for which the Planning Commission had accorded tentative approval during the discussions held by the State Government in November last. But under the difficult circumstances facing our economy and in the context of a drastic cut in Central assistance for State Plans, we have now provided for the maximum possible, though our needs particularly under some vital sectors like agricultural production are far larger and our administrative machinery is fully geared to the implementation of a bigger programme. It should however give some satisfaction to the House that Madras is among the few States which would be able to provide for a reasonable step up in outlay over the Plan of last year. In drawing up the Plan for the current year, Government have also taken note of the inflationary forces at work in the economy and have therefore endeavoured to concentrate on schemes calculated to yield quick results. Emphasis has been laid on augmenting agricultural production through minor irrigation programmes and propagation of high yielding strains supported by adequate and timely supplies of fertilisers. We have drastically pruned the outlays on building programmes so as to conserve our resources for productive schemes. Irrigation and power programmes as usual have received high priority and outlays on these programmes together will constitute a little over 40 per cent of the Annual Plan, thus reflecting in some measure the importance we attach to the early completion of these programmes. Our needs under social services are obviously very large and in a difficult year like the current one, we have not been able to meet all the needs and aspirations of the people in regard to expansion of social

services. Even so, we are fully aware that it is programmes like expansion of facilities for education, medical relief and public health and water-supply which make the Plan meaningful to the common man and have therefore sought to provide for maximum possible expansion in these sectors. I shall now refer briefly to the financial outlays and physical targets we aim at under certain important heads of development in the Plan.

16. In framing the Plan for the current year, programmes relating to agricultural production have obviously the first claim on our resources. The House is aware that experts have pointed out, and the planners have conceded, that the present ills of our economy are to be traced to the failure to recognise in successive Five-Year Plans that agricultural progress is the basis of all economic growth. While embarking on the State's Third Five-Year Plan, the then Government had expressed their confidence that food production will be stepped up from 53 lakh tonnes to 70 lakh tonnes. If vigorous measures had been taken in pursuance of this objective and the level of food production raised as visualised, we would not have been faced with the present difficult situation. But actual production was only 52·59 lakh tonnes in 1965–66. As we stepped into the Fourth Plan period from the Third, we were thus at the same point as at the commencement of the Third Plan so far as food production was concerned. In this situation, we have to step up our production if our objective of meeting the minimum nutritional requirements of our growing population and keeping prices of foodgrains within reasonable limits is to be fulfilled. Of far greater importance than the attainment of higher targets of production by the end of the Plan period, is some

substantial increase in the current year through concentration on quick-yielding schemes. It is the behaviour of agricultural production in the current year which will determine the success of the Plan.

17. The main plank in our agricultural programme in the current year will be the coverage of as large an area as possible with high-yielding strains. Apart from covering 13·5 lakh acres in the State with ADT-27, larger areas will be brought under improved strains like CO-25 and CO-29, hybrid cholam CSH-I and hybrid cumbu HB-I. The high-yielding varieties programme will be implemented over an extent of 17·4 lakh of acres, as against only 5·27 lakh acres covered last year. This should enable us to appreciate the measure of progress which Government have planned for in the current year. Extension of area under high-yielding varieties on this scale becomes possible in view of the change in cropping pattern which the Government propose to bring about in Thanjavur district. An extent of 3·2 lakh acres is normally brought under Kuruvai crop in Thanjavur district. This is followed by Thaladi, a second crop. Over the remaining 9 lakh acres of irrigated area, only a single Samba crop is raised. In the revised cropping pattern now considered feasible, about 3·2 lakh of acres will, as usual, be raised with Kuruvai followed by Thaladi. Out of the 9 lakh of acres of traditional Samba, 3 lakh of acres will continue to be single crop land. In respect of the other 6 lakh acres, ADT-27 will be raised as the first crop. On this crop being harvested, 4 lakh of acres will be covered by a second crop of paddy, the variety being ASD-5 or CO-32. This change in cropping pattern in Cauvery delta will represent a real breakthrough in our attempt to promote two crops,

where only one is now grown and will add very significantly to our food production. Government have no doubt that the farmers of Thanjavur, who have been increasingly taking to modern methods of cultivation, will put in all the efforts required to make this programme a success. Our agricultural extension machinery is also being geared to co-operate fully with the farmers in implementing the programme.

18. Our programmes for stepping up production of foodgrains in the Thanjavur delta have been hampered by the tardy progress in extension of electricity for lift irrigation. A large part of the district comes under private licensees who being motivated largely by considerations of profit have not been keen on extending electricity for agricultural purposes. The Government have been trying to promote rural electrification in Thanjavur district through grant of loans to private licensees in the last two years. But the progress so far has not been substantial. The Government feel that in the interests of food production, it is essential to undertake a massive programme for extension of electricity for filterpoint tube wells and surface wells and thus promote multiple cropping. They have therefore decided that the three private licences in force in Thanjavur district—Kumbakonam Electric Licence, 1930, Nagapattinam Electric Licence, 1933, and Mayavaram-Mannargudi-Tiruvarur Electric Licence, 1933, should be taken over without further delay. Government will accordingly be issuing a notice for taking over these undertakings under Section 4(1) of the Madras Electricity Supply Undertakings' (Acquisition) Act, 1954. The payment of compensation to the licensees will however actually arise only in the next financial year and no provision need be made in the current year's budget.

19. When the State Governments set out with keen interest to step up food production to the desired extent on the basis of programmes drawn up by competent officials, it is essential that the Central Government should extend its full measure of co-operation by making available supplies of fertilisers which are indispensable for the success of such schemes. But the House is aware that the Central Government do not allot fertilisers with reference to the requirements of the State and do not effect supplies even to the extent of allotments made. In 1964–65, against our requirements of 95,000 tonnes in terms of nitrogen or (4·95 lakh tonnes in terms of ammonium sulphate), we got only 70,000 tonnes of nitrogen or (3·5 lakh tonnes in terms of ammonium sulphate). In 1965–66 again, as against the estimated requirement of 1·16 lakh tonnes of nitrogen or (5·80 lakh tonnes in terms of ammonium sulphate), we were able to get only 55,000 tonnes of nitrogen (2·75 lakh tonnes in terms of ammonium sulphate). In 1966–67, our requirements were of the order of 1·35 lakh tonnes of nitrogen (or 6·75 lakh tonnes in terms of ammonium sulphate), against which we were allotted only 72,000 tonnes of nitrogen (or 3·6 lakh tonnes in terms of ammonium sulphate). We will need 1·63 lakh tonnes of nitrogen or 8·15 lakh tonnes of ammonium sulphate in the current year. Against this, an allotment of only 83,000 tonnes of nitrogen or 4·10 lakh tonnes in terms of ammonium sulphate or in other words just about half of our requirements is proposed to be met by Government of India. The Central Government advise us that augmentation of food production is the only means of overcoming the present ills of our economy. But when in pursuance of this advice, we embark on energetic measures for stepping up food production, it is distressing and not a

little surprising to note the vagaries in supplies of fertilisers from the Central Government. Our programmes have been drawn up on the assumption that we will be able to get the balance of allotment of fertilisers so direly needed. Government of India have assured us that the high-yielding varieties programme will be fully supported with the supply of fertilisers. We would however like to have the whole or nearly whole of our requirements of fertilisers to be assured. The farmers in our State are progressive and no special efforts are required to induce them to adopt larger dosage of fertilisers. We hope that the Government of India would recognise the crucial importance of adequate and timely supplies of fertilisers in ensuring the success of intensive cultivation programmes and fully respond to our request.

20. In drawing up our Plan for the current year, we have also realised the importance of minor irrigation programmes. Apart from renovation of tanks and other sources of minor irrigation, Government will keep up the present tempo in sinking of surface wells, bore-wells and filterpoint tube-wells. The programme will be supported by further extension of electricity for lift irrigation. Inclusive of the provision of 2,33 lakhs which will be diverted from Community Development for grant of loans for sinking of wells and a sum of Rs 1·5 crores expected to be made available through contributions to the debentures of the Central Land Mortgage Bank, the outlay on Minor Irrigation Programmes in the current year will be Rs 11·69 crores. We have also increased the provision of Rs 4 crores made in the Interim Plan for rural electrification to Rs 6 crores. Government are aware that the allocations which they have been able to make within the framework of the Plan in the

current year falls short of what is required in the present context. The Commissioner of Food Production who was requested to submit a report on introducing a scheme for conversion of single-crop wet land into double-crop wet land, has highlighted the possibilities of stepping up production significantly in the short-term with additional outlays on Minor Irrigation Programmes. Against the original Fourth Plan target of 62,500 wells, his report envisages more than $1\frac{1}{2}$ lakhs of wells. As against 8,300 private tube wells, he has suggested an enhanced target of 11,250 tube wells and as against 50 State tube wells originally envisaged, he has now suggested 500. He has suggested similar increases under filterpoint tube wells and in the scheme for supply of oil engines and electric motor pumpsets. With an outlay of the order of Rs 20 crores on these programmes in the current year we are confident that we can raise food production and the level of prosperity of the State to a gratifying extent. But it is not possible for the State Government with its limited resources to put through this massive programme. Having regard to the current awareness of the importance of Minor Irrigation Programmes, we hope that the Government of India would come forward to support our programme with financial assistance in ample measure. We would pursue the question of evolving special arrangements for financing minor irrigation programmes with vigour.

21. Though the Government have already set up a number of institutional arrangements for provision of timely credit on easy terms with reference to the needs of the farmers, Government consider that the present credit structure should be supplemented with a new organisation in the interests of augmentation of agricultural production. It is in this view that

Government are considering the proposals of the Ford Foundation for establishment of an Agricultural Development Corporation with financial assistance of the order of Rs 10 crores from that organisation. The possibilities of establishment of a well developed agricultural farm over an area of 3,500 acres at Kudumiamalai in the vicinity of Pudukottai had been envisaged some time back, but no effective follow up programme was however pushed through. The present Government are not only keen on implementing the scheme, but propose to investigate the possibilities of securing Russian collaboration for this programme. The Government have likewise worked out proposals for improving production of potatoes in Nilgiris district as part of an Indo-German project.

22. Adequate provision has also been made for Parambikulam-Aliyar Project and other medium irrigation programmes. The outlay on Manimukthanadhi scheme has been stepped up in the current year with reference to the pace of execution of the programme. For new schemes such as Ghatana, Ramanadhi and modernisation of Vaigai channels on which work is yet to commence, smaller provisions have been made which will be increased later with reference to the pace of expenditure and availability of resources. The proposals in the current year have been framed with reference to the present constraint on resources and the stress laid by the Planning Commission on completion of schemes already under execution in preference to new schemes.

23. The programmes relating to generation, transmission and distribution of power will absorb Rs 30·6 crores or about 35 per cent of the projected plan outlay for the current year. A provision of

nearly Rs 10 crores has been made for the Ennore Thermal Scheme, the most important scheme now under execution. Other significant provisions are Rs 3·10 crores for Parambikulam-Aliyar Hydro-Electric Scheme, Rs 3·81 crores for Kodayar Hydro-Electric Scheme and Rs 1·75 crores for the Basin Bridge Thermal Scheme. On present indications, there will be an addition of 160 mw. of installed capacity to the Madras grid in the current year.

24. In the present state of our economy, the emphasis in the industries sector in the current year should be on consolidation of schemes already under implementation rather than on initiation of any new schemes. In this context, the stepping up of the outlay on industries in the Plan from Rs 5·99 crores in the Revised Estimate, 1966–67 to Rs 7 crores in the current year's Plan needs a word of explanation. The increase has occurred under large and medium industries reflecting the actual requirements of the two major schemes we have undertaken, viz., establishment of a cement plant at Rajapalayam and a continuous Casting Plant at Arkonam. Orders for machinery required for the cement plant at Rajapalayam have been placed and we have initiated action for civil works and development of quarry. As regards Continuous Casting Plant, revised estimates for the project have been prepared taking into account the impact of devaluation and the requirements of machinery indicated in the project report furnished by the Soviet collaborators with whom we have just signed an agreement. Likewise, the Government are evincing interest in the proposals for starting another large industrial project with the co-operation of the Rumanian Government. This has been conveyed to the Central Government whose approval is awaited. The Plan also makes

provision for making a start on establishment of functional industrial estates for electronic industries, for drugs and pharmaceuticals and instrument industries. A provision of Rs 25 lakhs has been made for acquisition and development of lands for allotment to industrialists. The present Budget Estimates also embody a provision of Rs 20 lakhs for contribution to the share capital of co-operative sugar factories. The scope for stimulating industrial development through direct investments as part of the State Plan is limited. Of a total investment of Rs 23,750 crores contemplated in the Draft Outline of the Fourth Plan, the allocation for industries for all State Plans together is only Rs 178 crores. The provision for investment in organised industry and mining in the Central Plan is however Rs 3,751 crores. Unless this large provision is distributed on a fair basis among States, balanced regional development will not be possible. The Central Government's failure to alter its present policies which result in unbalanced industrial development among the States, even in the face of criticism in this regard by economic experts has further exacerbated the feelings of bitterness among the people of this State. It is a matter for deep regret, that outlays on Central sector industrial projects in the State in the Fourth Plan will be even less than Rs 100 crores which is grossly inadequate. It is with a view to secure a fair share of Central investment that we have been pressing for establishment of the Neyveli-Salem Steel Plant.

25. Technical experts and research Institutes in India and other countries such as Norway, Germany and Japan have emphasised that the Salem Steel Plant is a highly remunerative one involving a small capital outlay and can in this regard compare favourably with any other scheme. The Central Government had at every stage been holding

out promise of early implementation of the scheme and the Ministers of this State had also repeatedly been assuring the public that there need be no doubts at all about the implementation of this scheme. The people of the State are therefore considerably pained to note the present hesitancy and vacillation of the Central Government about this project.

26. When the question of establishment of a steel plant at Salem was sought to be complicated as one posing a new problem of choice among Salem, Vizag. and Hospet, the leaders in these States pointed out that it would be possible to establish steel plants in all the three places and also showed a way out. They pointed out that instead of pouring large resources into one huge project at Bokaro, they could be utilised in taking up these three schemes. We should recall here the representations in this regard made to the Prime Minister of India by an all-party delegation under Thiru 'Ma. Po. Si.' The Central Government have also been arguing that the delay in making a start on Salem Steel Plant is due to difficulties of foreign exchange. This Government are not unaware of the present difficulties and problems in regard to foreign exchange. But the arguments based on such difficulties are meaningless with reference to the Salem Steel Plant, because Thiru R. Venkataraman, former Minister for Industries, had made it clear on his return from Japan that Japanese industrialists were prepared to meet the foreign exchange component of the cost of the project. This position has been further confirmed during the discussions I had a few days back with some Japanese industrialists. I would therefore like to stress that it would not be fair to cite foreign exchange difficulties in justification of the abandonment or postponement of the Salem project.

27. It may be argued that even with Japanese assistance, large rupee resources will be needed for the Salem project and that it will be difficult to find them in the present financial position of the Government of India. The view has therefore been gaining ground that it is necessary and possible for the State Government to take up the project. People are therefore distressed to find that the application for licence made by the State Government for taking up this scheme has been held up with the Government of India for over one year.

28. I crave the permission of this House to urge upon the Government of India that the people of the State cannot any longer remain patient over the policy of the Government of India in regard to this project and that the Central Government should not shirk from its responsibility for taking a definite decision on this project.

29. I would also like to point out that the idea is gaining ground that a special committee consisting of members of all parties and experts in the industrial field should be set up to consider the measures for taking up the Salem Steel Project with Japanese collaboration and for working out in co-operation with all political parties, a programme of action comprising public criticism, agitation and resignation from office so as to bring about a change in the present policy of neglect by the Centre of the Salem project, in spite of strong reasons in its favour. It is not a desirable state of affairs in which justice is to be secured not through peaceful political means, but through agitation. But I would like to emphasise that it is the present policy of the Central Government which is driving all those who are prepared for any sacrifice in the cause of economic development of the State to the path of agitation.

30. It is a matter for deep regret that the Tuticorin Deep Sea Harbour Project is also in a similar state of doubt and uncertainty. The mercantile community of Tirunelveli, Madurai and Ramanathapuram districts expressed to me a few days ago their concern over the delay in pushing through the project and have promised their support for any action which the Government may take for development of Tuticorin harbour as programmed. I am confident that all those who place the progress of the country above party will support the plea that the Central Government should assume full responsibility for implementation of these projects which are essential for the industrial progress of Tamizhagam.

31. Though the guidelines issued by the Planning Commission for the preparation of the current year's Plan have assigned a definitely lower priority to social services, we have endeavoured to take a realistic view of the minimum requirements of programmes in this sector. The outlay on social services, particularly under general education and welfare of backward classes, would be substantially higher than last year. Inclusive of committed expenditure, the provision for education in the current year's budget is about Rs 54 crores, representing 25 per cent of State's revenues. The Plan provides for additional teachers and facilities required to cope with the additional enrolment envisaged in the three crucial age groups 6—11, 11—14 and 14—17. Keeping in view the considerable backlog in provision of adequate facilities in the form of buildings and equipment, we have allocated Rs 58 lakhs for construction of school buildings and Rs 86 lakhs for provision of laboratory and scientific equipment for schools in the current year's Plan. The opening of a large number of Government Arts Colleges in the last two

years has also entailed a provision of Rs 37 lakhs for construction of buildings for these colleges. Provision has also been made for the opening of two new Government Arts Colleges in the current year and for the opening of degree courses in colleges, where Pre-University Course has already been opened. Besides in the private sector, arrangements have been made by Pachaiappa's Charities to start a girls' college at Kancheepuram and Cuddalore and another Arts College in Madras City. A college named after Jawaharlal Nehru is being started at Puthanampatti in Tiruchirappalli district. Referring to the demand for free education at the P.U.C. level during the discussion on Interim Budget, I had indicated that some distinction will have to be drawn between those who can afford to pay and those who cannot and that in any case we will have to keep in view the competing demands on our resources in this sector. On a careful consideration of the financial and other implications, Government have decided that all students the income of whose parents is Rs 1,500 per annum or below should be exempted completely from payment of tuition fees. We have thus paved the way for social justice for the economically backward. In respect of students belonging to Scheduled Castes, Scheduled Tribes, Denotified Tribes and most Backward Classes and other Backward Classes, the income limit for exemption of tuition fees will be Rs 2,000 per annum. The CARE Organisation who have been continuing their support for the Mid-day Meals Programme in the State have, with a view to effect further improvements in the scheme, worked out proposals for the establishment of a central kitchen which can in due course be developed into a Centre for production of all vegetables needed for the mid-day meals scheme.

The Government have accorded sanction for implementation of this scheme as a pilot project in Poonamallee and have taken necessary steps. After an assessment of the benefits of the scheme, it will be extended to other parts of the State.

32. The welfare of backward classes continues to be of special concern to the Government. Inclusive of a provision of Rs 175 lakhs in the Plan, the total allocation in the budget for schemes relating to welfare of Scheduled Castes, Scheduled Tribes and Backward Classes will be Rs 657 lakhs. The House should be glad to know that the Government have decided to raise the income limit for grant of scholarships by the Harijan Welfare department from Rs 1,500 per annum at present to Rs 2,000 per annum so as to benefit a larger number of people, particularly those in salaried employment who are now unable to avail themselves of the benefit of scholarships, residential and non-residential awarded by the department.

33. While promoting schemes for uplift of backward classes, we should not overlook the need to support measures which would assist in the evolution of a casteless society. It is well known that the present Government are specially keen on promoting an integrated society arising above the differences based on caste, in which the people of Tamizhagam having swerved from the immortal teachings of Kural find themselves enmeshed to-day. If the current caste cleavages and chasms are to be closed and the concept of a casteless and classless society is to be firmly established, inter-caste marriages

should take place on an increasingly large scale. To this end, Government propose to implement a scheme for holding celebrations and awarding gold medals every year in commendation of the efforts of couple who contract such marriages. The Government will settle from time to time the date, place and manner of holding such celebrations. We have made arrangements for allotting on a rough and ready basis a sum of Rs 10,000 for this purpose in the current year.

34. Under medical and public health, a total allotment of Rs 41 lakhs has been made for construction of buildings and supply of equipment for three new medical colleges at Chingleput, Coimbatore and Tirunelveli. The intake in medical colleges has also been increased from 1,075 to 1,125 in the current year. Though the needs in this sector are very large, we have within the limited resources available provided for a large number of new schemes, details of which will be found in the relevant appendices to the Budget Memorandum. A provision of Rs 1,70 lakhs has been made for the various urban water-supply schemes now under execution. Government have also accorded sanction for two new schemes—Ambur, entailing a cost of Rs 40·00 lakhs and Tirupathur (North Arcot) entailing an outlay of Rs 28·48 lakhs.

35. With an allocation of Rs 1,50 lakhs, the present tempo of execution of water-supply and drainage schemes in the City will be maintained without any serious setback. As the House is aware, Madras City at present draws its supply of drinking water from three reservoirs outside the City, viz., (i) the Satyamurthi Sagar ; (ii) Sholavaram lake ; and (iii) the Red Hills lake. The quantity normally

made available from these sources is on the average about 30 million gallons per day which falls far short of the present and anticipated requirements of the City's growing population. The supplies are also precarious and have, in bad years, been as low as 12 million gallons per day. Apart from denial of a basic amenity to the citizens, lack of dependable supplies of water will also affect the growth of industries in the City and its environs. In view of the pressing need to augment the water-supply for the City and industries in its neighbourhood, the Government have in the recent past sanctioned certain schemes such as construction of open line channels from Poondi to Red Hills so as to save transmission losses, acquisition of the entire ayacut of 7,500 acres under Red Hills and Sholavaram tanks so as to conserve 550 million cubic feet of water now utilised for irrigation and raising of the F.T.L. of Red Hills and Sholavaram lakes with a view to provide an additional storage capacity of 680 million cubic feet of water. These schemes which are in progress are only in the nature of palliatives and do not provide an adequate remedy for the City's persistent shortage of water. Government have therefore decided that the scheme already under investigation for drawal of water from the Cauvery should be taken up without further delay. A provision of Rs 10 lakhs has been made in the present budget with a view to enable a start being made on this important scheme even in the current year. I have no doubt that the citizens of Madras would welcome this long overdue decision of the Government.

36. Another longstanding demand of the citizens of Madras relates to the improvement of Cooum which in its present state poses a serious public health hazard. A high power technical committee

constituted in 1958 has formulated proposals for the improvement of the Cooum river so as to make the river tidal and navigable. The cost of the scheme is estimated at about Rs 1,20 lakhs, inclusive of the provision needed for rehabilitation of encroachers now living on the margins of the river. A significant part of the cost of the scheme can be recovered by sale of plots on the margins of the river. The net cost to the Government after allowing for such receipts will therefore be considerably less. The scheme will be executed in two stages, the first stage of which will cost Rs 32 lakhs exclusive of the cost of rehabilitation of encroachers. The second stage estimated to cost Rs 56 lakhs will be taken up later and these two stages will be completed within five years. It is proposed to make a start on this scheme too in the current year and the approval of the Legislature is sought through an initial provision of Rs 5 lakhs. Apart from these specific schemes of special benefit to the City, loans and grants totalling Rs 76 lakhs are being made available to the Corporation for various purposes such as construction of over-bridges, improvement of roads, street lighting and markets.

37. The Government have thus framed a Plan to fulfill the needs of the people, to the extent possible. The programmes which Government draw up and the efficiency and keenness which the administrative machinery evince in implementing them will not by themselves be adequate, to create a new social awakening in the country. We should kindle a fervour which will rouse the society as a whole and evoke from every one his contribution towards the shaping of a new social order. The onward march of our society will be assured if a few thousands

of our people, having done their best for themselves and their families, set apart at least one hour's labour for the common good of the country. In the hope that there are several thousands of people who share this view, the Government have, as a first step, decided to form 'Prosperity Brigades' with a strength of one thousand each in every district. A provision of Rs 10 lakhs has been made towards the approximate expenditure on this scheme in the current year. Members of this brigade will not receive any remuneration from Government, but supported with necessary tools and equipment, will devote their spare time to activities such as repair of tanks, improvement of roads and reclamation of waste lands and adult education. The technical staff of appropriate departments will guide and assist the work of the prosperity brigades. I hope that from such modest beginnings, these prosperity brigades will gain massive support of patriotic individuals with keen desire for social service and will record very successful results.

38. Inclusive of this programme, the Plan for the current year will be of the order Rs 85·3 crores. The House is aware that Central assistance plays a crucial part in determining the size of State Plans. We cannot overlook the fact that the larger question whether the national resources have been allocated equitably between Central and State Plans has considerably perturbed the minds of the public. Apart from this, our main grievance is that even the available Central assistance is not distributed among the States from year to year in the proportion agreed upon for allocation of Central assistance for plans of different States. On the basis agreed upon for the financing of the Fourth Plan, we should get 7·14 per cent of total assistance for States. In this view we

should have got at least Rs 44 crores in last year's Plan, against which the assistance extended to us was only about Rs 40·3 crores. We had expected that this shortfall would be made good at least in the current year. But in order to balance its budget artificially the Centre has reduced its assistance for State Plans from Rs 617 crores last year to Rs 590 crores, and even of this reduced assistance this State has not been given its proportionate share. The Centre has at this stage made a firm commitment only to the extent of Rs 38 crores of assistance for the current year's Plan. No one will endorse the present method of artificial balancing the Central Budget, by creating financial stringency in the States. We have pruned the outlays on development programmes to the utmost and any further reduction will be unrealistic and will not materialise in practice. Keeping this in view and the efforts we have made at conserving our resources, I have no doubt, that the Centre would on further review of its resources and our minimal requirements agree to step up its assistance to at least Rs 43·5 crores. We have drawn up our Plan on the basis that such assistance would be forthcoming, particularly, if, as we all expect, there is some improvement in the national economy in the wake of a reasonably good monsoon.

39. It will be recalled that the Interim Budget presented to the State Legislature in March 1967 was a highly deficit one. It had envisaged a revenue deficit of the order of nearly Rs 7,60 lakhs and also pointed to a negative closing cash balance of Rs 8,85 lakhs. Since the minimum cash balance to be maintained with the Reserve Bank of India has been raised from Rs 40 lakhs to Rs 55 lakhs with effect from 1st March 1967, the gap in resources in the State's Budget was

actually Rs 9·40 crores. The possibility of some improvement in our resources, when the preliminary actuals for 1966–67 became available, had however been indicated in my speech on the Interim Budget. The Centre also sanctioned additional assistance to the extent of about Rs 2·5 crores for the Plan towards the close of the financial year and this had not been taken credit for in the revised estimate. The Accounts for 1966–67 will be closed by the Accountant-General only by October or November 1967, and the actuals under different heads of accounts will be known only then. Meanwhile, however, it has been ascertained that the opening cash balance for the current year will be Rs 6,00 lakhs, as against Rs 40 lakhs assumed in the Interim Budget for 1967–68. This gratifying improvement in opening cash balance is due to increased receipts under certain important heads of revenue like Central Sales Tax and Motor Vehicles Tax, additional Central assistance to the extent of Rs 2·5 crores for the Plan and certain anticipated debits on account of foodgrains not being raised in full before the close of the financial year. These carry over debits have now been provided for in the current year's Revised Budget.

40. In the absence of final accounts for last year, we have had to proceed largely on the basis of Revised Estimates for 1966–67 in our projections of revenue and expenditure. But in regard to receipts under certain principal heads of revenue, preliminary actuals have been obtained from the Accountant-General with a view to make as realistic a projection as possible under important heads in the regular Budget, 1967–68. A detailed analysis of the significant variations between the figures assumed in the Interim Budget and the figures now proposed for adoption in the regular Budget has been furnished in Budget Memorandum

separately circulated. I may however refer briefly to certain principal variations to enable the Members to appreciate the basic budgetary figures in their proper perspective.

41. In the Interim Budget for 1967–68, a lumpsum provision of Rs 5·62 crores had been made under "71. Miscellaneous" towards the increase in dearness allowance sanctioned in December 1966. This amount has now been distributed among the relevant major heads of account on the expenditure side and this accounts for the apparent increase in establishment charges under various major heads. A review of receipts under the principal heads of revenue has also been made with reference to preliminary actuals for 1966–67 and wherever there is adequate justification for assuming increased receipts, the figures have been correspondingly marked up. The principal increases are under Central Sales Tax from Rs 9,63 lakhs in the Interim Budget to Rs 10,21 lakhs in the present Budget Estimates, under Motor Vehicles Tax from Rs 14,77 lakhs to Rs 15,52 lakhs and under General Sales Tax from Rs 38,65 lakhs to Rs 38,90 lakhs. We have generally left the figures on the expenditure side unaltered, as the provisions had even earlier been pruned to the utmost and would not admit of any considerable reduction. The Interim Budget did not provide for any significant expenditure on restoration of damages caused by the cyclone which struck the State in November 1966. In the Revised Budget for 1967–68, now presented to the Legislature however, provision has been made for a total expenditure of Rs 2·5 crores for cyclone relief operations. Of this, bulk of the expenditure will be on repairs to a large number of tanks and other sources of irrigation in South Arcot, North Arcot and Chingleput districts damaged by cyclone. It will not be possible for us

to meet this expenditure from our own normal budgetary resources, which have been fully earmarked for the fulfilment of the Plan. We have therefore moved the Government of India for special assistance for meeting this inescapable commitment. Such assistance has been given to States including Madras in the past with reference to their needs and their ways and means position. As Government of India have in their Budget made a large provision for affording assistance to States to meet distress caused by natural calamities such as drought and floods, I have no doubt that they would respond to our very modest request for assistance in this regard. We will have to regulate the actual expenditure on cyclone relief operations with reference to assistance made available by Government of India. The Budget Estimates now before the House also provide for Part II Schemes approved by the Cabinet. The Part II Schemes entail an additional outlay under Revenue, Capital and Loan Accounts of the order of Rs 6,00·20 lakhs, of which schemes included in the Plan account for Rs 5,10·68 lakhs and non-Plan schemes for Rs 89·52 lakhs.

42. With these variations, the revenue receipts for the current year at existing rates of taxation are estimated at Rs 210·82 crores and expenditure on revenue account at Rs 217·19 crores, leaving a deficit of Rs 6·37 crores, as against Rs 7·60 crores visualised in the Interim Budget. Excluding capital outlay on schemes of Government trading, the provision for capital expenditure in the Interim Budget, which was of the order of Rs 20·5 crores, has now been stepped up to Rs 22·7 crores in the regular Budget. Besides, the capital outlay of the Electricity Board will be of the order of Rs 30·60 crores, as against Rs 28·60 crores visualised in the Interim Budget.

43. I had occasion to refer in my speech on Interim Budget to the difficult ways and means position of the Government. The Government of India and the Reserve Bank of India also now take a more strict view in regard to overdrafts even where these are due to purely transitory causes. On our present estimate of resources and possible Central assistance for the Plan the closing cash balance for the current year will be (—) Rs 4·70 crores, which will, therefore, result in overdraft with the Reserve Bank of India. The choice before us is therefore to balance our receipts and expenditure at a lower level by pruning our developmental expenditure particularly on social services or to achieve a balance at a higher and more realistic level through mobilisation of some additional resources without casting too large a burden on the economically weaker sections of the society. We have subjected the outlays on developmental programmes to strict scrutiny and have concluded that they will not admit of any serious cuts. Schemes under execution cannot be abandoned midway without rendering the investments already made infructuous. Various measures for economy in expenditure initiated by us will yield results only in the long-term. Further, in terms of the pattern of financing for the Fourth Plan agreed upon during the discussions between the Planning Commission and the State Government in November 1966 this State has to raise additional resources of the order of Rs 55 crores over the remaining period of the Fourth Plan. While this target may be clearly unattainable, we have to make some efforts towards partial fulfilment of the target, if the Plan is not to be drastically cut. Keeping all these past commitments and present needs in view,

I place before the Hon'ble House the following proposals of Government for augmenting our revenues.

44. Our first proposal relates to certain adjustments in rates of sales tax which have been rendered necessary not merely by the large revenue deficit which we are faced with, but also by the enhancement in the rate of Central Sales Tax from 2 per cent to 3 per cent last year. The Central Sales Tax Act lays down the cardinal principle that the rates applicable to inter-State sales shall be no higher than the rate applicable to sales of goods concerned within the State. It also declares certain goods such as coal, cotton, cotton yarn, iron and steel, jute, oil seeds, cardamom, groundnut and hides and skins to be of special importance in inter-State trade and commerce and lays down the maximum rate applicable to both inter-State and intra-State sales. This rate was till the last financial year 2 per cent. It has now been raised to 3 per cent.

45. Our General Sales Tax Act rate on Declared Goods continues to be 2 per cent or less. The multipoint rate is also 2½ per cent. The result is that in respect of inter-State transactions in these commodities we are not able to levy tax at the permitted rate of 3 per cent. We do not thus get the full benefit of the enhancement of the Central Sales Tax rate from 2 per cent to 3 per cent, though in their estimates of resources of this State for the Plan, the Central Government have reckoned that receipts from Central Sales tax would rise in proportion to the enhancement of the rate under the Central Sales Tax Act. A fresh look at rates under Madras General Sales Tax Act has therefore become necessary.

From the point of view of rates of sales tax, the various commodities can be grouped under four broad heads: (*a*) The first 14 items in the First Schedule of the Madras General Sales Tax Act, the so-called luxury acticles on which tax at 11 per cent single-point is being levied with effect from 1st December 1965; (*b*) Declared goods in respect of which our rates are 2 per cent single-point or less; (*c*) Commodities other than luxury goods and declared goods coming under single-point tax listed out in the First Schedule of the General Sales Tax Act; and (*d*) Commodities coming under Multipoint tax. The Government have now decided that the rate on goods such as motor cars, refrigerators, etc., listed as items 1 to 14 in First Schedule of the Madras General Sales Tax Act, 1959, the so-called luxury goods, should be raised from 11 per cent to 12 per cent. As regards 'declared goods', it is proposed that the rate on coal, iron and steel, jute, oilseeds and cardamom should be raised from 2 per cent to 3 per cent. The rate on groundnut will be raised from 1½ per cent to 2 per cent. The rate on raw hides and skins will be raised from 2 per cent to 3 per cent and that on dressed hides and skins from 1 per cent to 1½ per cent. In view of the difficulties currently facing the textile industry and in view of Government's special concern for the handloom industry, we have decided that there will be no enhancement in sales tax on cotton and cotton yarn, which will remain unaltered at 2 per cent. The rates on other single-point goods will be raised by ½ per cent. There will however be no enhancement in respect of coffee (item 32), tea (item 36), soap (item 37), kerosene (item 35) and chemical fertilisers (item 21). Bullion will also be left out of this increase. The multipoint rate

will be raised from $2\frac{1}{2}$ per cent to 3 per cent as in certain other neighbouring States. There will be no enhancement in rate on wheat and wheat products, which are even now taxed at a concessional rate of 1 per cent multipoint.

46. At the same time Government have recognised that small traders should not be subject to any hardship in respect of assessment and collection and should be shown some concession. All traders whose turnover is below Rs 10,000 per annum are therefore nowexempted from payment of sales tax. For traders with a turnover between Rs 7,500 and Rs 10,000 per annum, there is provision for registration so as to enable the Commercial Taxes department to keep track of them and bring them within the net of taxation once they cross the exemption limit. There have been frequent representations from the trade for enhancement of these exemption limits. Government have decided to accede to this request and accordingly the limit for exemption from payment of sales tax will now be raised from Rs 10,000 to Rs 15,000. This enhancement will result in exclusion of about 16,000 assessees or about 18 per cent of the total number of assessees from the purview of taxation. We will thus meet one of the longstanding demands of the small traders at a sacrifice of revenue of the order of Rs 21 lakhs. Correspondingly, Government have also decided to raise the limit for exemption from registration from Rs 7,500 to Rs 10,000. Our Sales Tax Act also permits traders up to a turnover of Rs 50,000 to compound the tax at certain flat rates per annum. With a view to afford relief to small traders, the limit for composition will be raised to Rs 75,000, affording relief from cumbersome procedure of assessment to a larger

number of small traders. The existing rates for composition which works out to roughly 1·2 per cent of the minimum turnover under different slabs were fixed when the multipoint rate was 2 per cent. In view of the enhancement in multipoint rate to 2½ per cent in November 1965 and now to 3 per cent some increase in rates of composition is also called for Government have therefore decided to fix the revised rate of composition ranging from 1·3 per cent in respect of the slab Rs 20,000 to Rs 25,000 to 1·7 per cent in the highest slab from Rs 70,000 to Rs 75,000. There will be no increase in the composition rate in the lowest slab from Rs 15,000 to Rs 20,000. Of the enhanced rates now proposed, those on luxury goods, singlepoint goods and declared goods can be brought into force by notification under Section 59 of the Madras General Sales Tax Act, pending enactment of formal legislation. In order that anti-social elements may not take advantage of the present announcement of revised rates and put through transactions to the detriment of public revenues, Government have decided to bring the revised rates on singlepoint goods, luxury goods and declared goods into force by notification *with effect from 18th June* 1967. It is our intention to bring into force the changes in multipoint rate and rates of composition also through legislation with effect from 1st July 1967. The proposals outlined here will bring us additional revenue both under the Madras General Sales Tax Act and under the Central Sales Tax Act and it is estimated that the receipts in the current year will be of the order of Rs 3·25 crores.

47. Our next proposal for mobilisation of additional resources relates to adjustments in rates of Motor Vehicles Tax on stage carriages under Madras Motor

Vehicles Taxation Act. The rates under this tax have been fixed with reference to daily route mileage and are as under :—

	Existing rate of tax per seat per quarter.
Stage carriages covering daily route mileage—	
	RS
Not exceeding 210 kilometres ..	35
More than 210 kilometres and not exceeding 270 kilometres.	40
More than 270 kilometres	45

The number of buses doing less than 210 kilometres, particularly on mufassal routes is negligible and most of the buses are already doing more than 270 kilometres. Keeping this in view and the need for additional revenue, Government have decided to revise the rates as below :—

	Revised rate of tax per seat per quarter.
	RS
Passenger bus covering daily route mileage of—	
270 kilometres and below	50
More than 270 kilometres	55

As town services are generally not so remunerative there will be no enhancement in rates of tax on town services. In response to the appeals of private operators for increasing the maximum permitted daily mileage of stage carriages on ordinary services from 200 to 250 miles per day so as to ensure fuller utilisation of their capital investment, Government have now decided to increase the maximum

permitted daily mileage from 200 to 250 miles. This will improve substantially the profitability of all transport undertakings and enable them to absorb without difficulty the additional tax burden now placed on them. The revised rates proposed by us will take effect from 1st July 1967 and will therefore apply to three quarters in the current financial year. The additional revenue anticipated from this measure in the current year has been estimated at about Rs 90 lakhs. The Government have also decided to raise the tax on motor cars from Rs 21 to Rs 30 per quarter in respect of vehicles having unladen weight of not more than 700 kilogrammes and from Rs 30 to Rs 40 in respect of vehicles weighing more than 700 kilogrammes but not more than 1,500 kilogrammes, with corresponding adjustments in respect of motor vehicles with higher unladen weight. There will be no increase in rates of taxation on motor cycles, scooters and tri-cycles. The additional revenue anticipated from this measure which will also take effect from 1st July 1967 is about Rs 10 lakhs in the current year.

48. The Government have also decided to increase the rate of excise duties on liquors manufactured indigenously and sales tax on imported foreign liquors. The existing rate of excise on indigenously manufactured wines and spirits is Rs 8 per proof litre. When compared to the excise duties levied in other States, our rate is very low. We therefore propose to raise the excise duty levied under Section 18 (A) of the Madras Prohibition Act to Rs 18 per proof litre. Under Section 21-A of the Madras Prohibition Act of 1937 sales tax is levied at the rate of 50 paise per rupee on the price of imported liquor sold. In view

of the increase in excise duty on Indian made foreign liquors, it is also proposed to raise the rate of sales tax on imported liquor from 50 paise per rupee to 75 paise per rupee. These measures are expected to bring in an additional revenue of about Rs 10 lakhs in the current year.

49. While seeking to raise additional resources within the limited powers available to them, Government have also kept in view the need to check evasion under some of the existing measures of taxation. The House is aware that there is widespread evasion of Stamp Duty payable on transactions relating to immovable property through understatement of the price of properties conveyed. Under Article 23 of Schedule I to the Indian Stamp Act, 1899, Stamp Duty is leviable on the amount or value of the consideration for the conveyance as set forth in the document. It has been observed that in many cases the parties do not set out in the document the real amount or value of the consideration. Such undervaluation with a view to evade payment of Stamp duty legitimately due results in substantial loss of revenue to Government. The existing provisions in regard to levy of penalty contained in Section 64 have not proved effective. The Government have therefore after taking appropriate legal advice decided on necessary legislation to relate Stamp Duty payable to market value of the properties so that in cases of gross undervaluation of properties, the department can determine the market value with reference to independent data and take steps to realise the difference in Stamp Duty. Necessary legislation in this regard has now been got ready and will be introduced in the current session of the Legislature. When a document is presented for

registration, if the registering officer believes that the market value of the property has not been truly set forth in the instrument, he may refer the matter to the Collector for determination of market value. The Collector, after giving appropriate notice to the parties, will determine market value and the stamp duty payable with reference to such market value. Against the orders of the Collector, an appeal will lie to a Judicial authority. This provision for appeal to a judicial authority will be a clear check on arbitrary determination of market value by the executive, but will ensure that the Government get their legitimate revenues. These provisions will also be applicable to instruments of exchange and gifts. It is difficult to estimate the additional revenue from these measures for curbing evasion of stamp duties. But we may expect that the additional revenue will eventually be over Rs 1 crore in a full year or about Rs 90 lakhs in the current year.

50. While referring to remission of basic assessment on dry lands, I had indicated that the loss on account of abolition of land revenue should to some extent be made up by larger contributions from bigger landholders, particularly those cultivating remunerative commercial crops such as sugarcane, turmeric and arecanut. The main criticism of the land revenue system as it has evolved over a long period is that while it weighs harshly on small landholders with no surplus, it operates lightly on the bigger landholders and is thus regressive in its incidence. The need for introducing a measure of progression in assessment of land revenue has been stressed by experts on a number of occasions and several *ad hoc* measures have been adopted to introduce this element of progression. The House is aware

that we had for some time a system of graduated surcharges on land revenue related to the size of land holdings. Later the system of surcharges was replaced by an Agricultural Income Tax under the Madras Agricultural Income Tax Act, 1955, which as subsequently amended provides for a tax on agricultural income of Rs 3,600 and above at rates ranging from 5 Paise in the rupee to 45 Paise in the rupee. The scheme of taxation in the Madras Agricultural Income Tax Act was modelled on the scheme applicable on non-agricultural income under the Income Tax systems in India and abroad and was intended to meet the main criticism, against our land revenue system which discriminated in favour of the bigger landholders. But the provisions in the Agricultural Income Tax Act have been whittled down in practice through the facility provided for composition of tax at certain low flat rates. The facility for composition of income was originally intended to be purely of temporary nature, but has been extended periodically through amendment to the Agricultural Income Tax Act. The Government have decided that the provisions for composition which have reduced the original objectives of agricultural income tax system to a nullity should be given up. The minimum limit for exemption under the Agricultural Income Tax Act will however be raised simultaneously to be in line with the limit allowed for non-agricultural incomes under the Income Tax Act. All persons getting an agricultural income above this limit will be liable to pay agricultural income tax at the rates specified in part I of the Schedule of the Madras Agricultural Income Tax Act on the basis of returns of income to be submitted by them. The provisions relating to standard acres in the Agricultural Income

Tax Act will also be deleted so that persons growing remunerative crops and getting an income above the exemption limit do not escape liability for tax, only because they own less than twelve and a half standard acres as now defined. I should hasten to add, by way of allaying any possible misapprehensions, that provisions relating to standard acres in the Land Ceiling Act will not be affected. Government are aware of the criticism that the withdrawal of the provision for composition of incomes will throw on the bigger ryots the need for submitting returns of income. Government can assure the public that they will issue suitable executive instructions to ensure that there is no such harassment. The experience in the neighbouring State of Kerala as also our own experience in Kanyakumari district and Shencottah taluk of Tirunelveli has shown that a scientific scheme of taxation of agricultural income can be administered without undue harassment or inconvenience to the bigger farmers. It is difficult to estimate the additional revenue from these amendments to the Madras Agricultural Income Tax Act. But we may hope that the additional revenue will to some extent compensate for the loss of assessment on dry holdings and will in due course enable us to provide some further relief to the smaller landholders. Necessary amending legislation will be introduced shortly, and will apply to agricultural income accruing in 1967–68 and assessable in 1968–69.

51. The policies and programmes I have outlined and the efforts we have put in for mobilisation of resources should give the assurance, if such assurance were needed at all, that we seek progress without impairing financial stability. We may be new to administration,

but we are believers in social justice; we are heirs to the hoary traditions of Tamilnad which have always emphasised the virtues of thrift and economy. At a time when we hear so much of financial discipline, it is necessary that the efforts of those who still practise these elementary virtues should be recognised in appropriate quarters. We have made a start on all policies which we consider to be essential for the well being of the people and yet have kept commitments in this regard within reasonable limits. We shall continually strive to economise on unproductive expenditure; we shall conserve and improve our resources. What we need in recognition of all this is a little additional assistance and that too within what has been agreed to be given for the Plan. If planned economic development is looked upon as a joint enterprise of Central and State Governments, having done our best we are entitled to ask our partner to contribute his agreed share. This is just what we ask for.

52. It is futile to raise the ~~altruist~~ alarmist argument that national unity will be impaired by such pleas for development of the States. There has been considerable change in the matrix of Central-State financial relations since the provisions of the Constitution in this regard were settled. There have been a number of new trends and developments which could not have been visualised when the Indian Constitution was framed. The Constitution had already provided for considerable concentration of powers in the hands of the Central Government. Through a new institution which was beyond the ken of the architects of the Constitution, the Centre has acquired still larger powers causing concern about

the position of the States. This new development relates to economic planning. The powers which the Central Government have assumed in regard to mobilisation, allocation and pattern of utilisation of resources for the Plan have reduced the States to the status of suppliants for aid from Centre. Though some may shrink from discussing this issue on account of party discipline, all those who have looked at this problem from the purely economic angle, have expressed regret at these trends in financial relationship between Centre and State. By virtue of the powers vested in it such as those under entries 36 to 38 in the Central list under the Seventh Schedule of the Constitution relating to issue of currency and foreign exchange, the Centre is fully accountable for inflation and deficit financing. The responsibility for rise in prices due to these factors is thus squarely with the Centre. The Centre has consequently also to assume responsibility for control of prices. Though the State Governments have to suffer from the impact of rising prices due to the policies of the Central Government, the Indian Constitution has not vested the States with necessary powers to control the prices and set right the situation. Hence it is that I am faced with the situation in which I have to request the Centre to share the additional expenditure involved in payment of dearness allowance to Government employees due to rise in prices and the loss on account of distribution of foodgrains at reduced rates. It will now be possible to appreciate why I feel aggrieved when the Centre asserts that each State Government should itself bear the burden involved in distribution of foodgrains at subsidised rates and grant of dearness allowance to Government employees. Unless considerations of party cloud their judgment, those who have made a study of the relationship

between the Centre and States in our Constitution, will not hesitate to endorse the validity of my argument.

53. A Finance Commission is now appointed once in five years to examine the nature of financial relations between the Centre and State and suggest measures for their improvement. Though it is true that the share of the States in Central revenues has gradually increased in pursuance of the recommendations of the Finance Commissions, they have not been able to mitigate the dependence of the States on the Centre, as plan finances have been kept outside their terms of reference. As Finance Commissions are appointed only once in five years, the State Governments are unable to face the difficulties which arise in the intervening period.

54. I would therefore like to stress that the Finance Commission should be placed on a permanent basis and that it should from year to year examine continually the financial relations between the Centre and the States and propose suitable remedial action. I would also like to draw attention to the need for setting up a commission to propose necessary changes in relevant Constitutional provisions so as to promote the development of States in the light of our experience with the existing provisions of the Constitution. I believe that Article 263 of the Constitution affords scope for establishment of such a body. I also understand that there is a similar commission in Australia. Many Chiefs of State Governments have recognised that State Governments cannot discharge their responsibilities in meeting the growing aspirations of the people for a new way of life, unless the resource base of the States is considerably strengthened by

giving them access to growing sources of revenue and by allocating the Plan resources on an agreed basis leaving the States with complete freedom to utilise them according to their judgment.

55. The House is aware that these leaders have also like me referred to the need for rethinking on the relations between the Centre and the States. I have no doubt that every one will agree on the need for placing these relations on a satisfactory basis. No one can deny that the experience so far in regard to distribution of revenues, delimitation of powers and allocation of assistance for Plan has been such as to cause bitterness. It has become an urgent necessity to eliminate this bitterness and evolve ways and means of promoting fruitful relations between Centre and States. The problem I have posed need cause no apprehension or misgiving but should only provoke thought. It is my earnest desire that through mutual goodwill and understanding we should forge a fraternal and beneficial nexus.

56. Before I conclude, I would like to express my thanks as one who is new to administration, for the able assistance rendered to me by the Finance Secretary, Thiru G. Ramachandran and those working with him in preparing this Budget. By their enthusiastic co-operation, they have lightened my burden to a considerable extent.

57. With these words, Sir, I commend the Budget Estimates for 1967–68 for the acceptance of this House.

MADRAS,
17*th June* 1967.

C. N. ANNADURAI,
Chief Minister.